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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

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CARL J. KUNASEK

Commissioner

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IN THE MATTER OF COMPETITION IN) DOCKET NO. RE-00000C-94-0165
THE PROVISION OF ELECTRIC)
SERVICES THROUGHOUT THE STATE)
OF ARIZONA.)

RESPONSE OF MOHAVE ELECTRIC COOPERATIVE, INC. AND
NAVOPACHE ELECTRIC COOPERATIVE, INC. TO
THE JANUARY 6, 1999 PROCEDURAL ORDER

Mohave Electric Cooperative, Inc. ("Mohave") and
Navopache Electric Cooperative, Inc. ("Navopache") submit
comments in response to the Chief Hearing Officer's Procedural
Order dated January 6, 1999, concerning the resolution of the
remaining issues in electric industry restructuring.

I.

ISSUES THAT NEED TO BE RESOLVED IN THE ELECTRIC INDUSTRY
RESTRUCTURING AND THE ORDER IN WHICH THESE ISSUES
SHOULD BE RESOLVED.

1. R14-2-1607. Stranded Cost Recovery.

The issue of stranded cost recovery must be expanded
to address all costs incurred by Affected Utilities as the
transition is made to a competitive marketplace. In addition to
generation stranded costs, Affected Utilities may have stranded

1 investment in metering and billing systems as well as meter
2 plant.

3 The rules, in their current form, allow customers to
4 obtain metering services from other providers. This could
5 result in the return of a large number of meters to the
6 warehouses of Affected Utilities. Also, due to additional data
7 required for non-profiled usage, existing meter equipment may
8 become obsolete before the end of the equipment's useful life.

9 There is also an issue as to whether customers who
10 elect to stay with standard offer service should bear the costs
11 incurred by Affected Utilities resulting from customers who opt
12 to move to competitive service providers.

13 It is worth noting that the California Public
14 Utilities Commission adopted a "Net Avoided Cost" methodology to
15 address transition costs. Mohave and Navopache would suggest
16 that the Commission examine this method when deciding these
17 issues.

18 2. R14-2-1610. Transmission Issues.

19 In the proposed APS/TEP/Staff settlement announced in
20 December, the parties had proposed to establish a statewide
21 transmission company ("Transco"), owned by an investor owned
22 utility, to provide a competitive marketplace. This major
23 policy decision was proposed without the input of all affected
24 parties. This policy was also proposed without the benefit of
25 evidentiary hearings. Mohave and Navopache would recommend that
26

1 this issue be decided in the context of a full evidentiary
2 process.

3 Also, because the current rules define the Arizona
4 transmission system based on voltage rather than utilization,
5 Mohave and Navopache would recommend that the FERC definition of
6 transmission be utilized in deciding this issue.

7 3. Unbundled Rates/Standard Offer Service/Pricing.

8 Mohave and Navopache believe that the Commission has
9 diverged from the intent of the rules in addressing rates and
10 pricing. Staff adopted a policy that requires Affected
11 Utilities to develop unbundled rates that are tied to existing
12 bundled service rate design less power supply costs.

13 Mohave and Navopache believe that unbundled service is
14 a new service and it should be priced as such. The current
15 rules indicate that competitive services should be cost based
16 but can be downwardly flexible. Staff's current policy results
17 in rates for Affected Utilities that may be based on average
18 costs assuming that current rates are cost based. However,
19 Staff currently allows ESPs to file tariffs that have extremely
20 high charges that allow for significant downward flexibility.

21 Mohave and Navopache believe that rates for Affected
22 Utilities and ESPs, in the competitive marketplace, must be
23 based on a level playing field with the same rules applicable to
24 both types of players.

25
26

1 4. R14-2-1616 and R14-2-1617. Affiliate Rules and Separation
2 of Monopoly and Competitive Services.

3 The rules, in their current form, place small
4 utilities at a competitive disadvantage. The rules require the
5 UDC to be the service supplier of last resort. The rules,
6 however, make it difficult for these small entities to develop
7 cooperative efforts to improve economics of scale. R14-2-1616
8 requires that UDCs provide competitive metering services until
9 two or more competing providers enter the marketplace, but UDCs
10 are prohibited from competing thereafter. The rules fail to
11 define how this would be implemented (e.g. how many customers
12 may be served from the two or more competitors before
13 competition is deemed to be available) or how a fall back
14 service would be provided if the competitors enter and leave the
15 market.

16 The rules require that the cooperatives provide
17 competitive services. This has resulted in many administrative
18 and governance problems for the cooperatives. For example, if a
19 customer is served by a cooperative UDC but receives energy,
20 metering, meter reading, and billing services from an ESP, then
21 there is no membership relationship established between the
22 cooperative and the customer. The point of contact is the ESP,
23 not the end user. Cooperatives should be exempted from this
24 requirement so that cooperatives are always the provider of
25 metering, meter reading, and billing services.
26

1 5. Billing Issues.

2 The rules require detailed billing information for all
3 customers including Standard Offer customers. Currently, many
4 Affected Utilities procure power supplies on a bundled basis
5 with postage stamp rates applied to generation, transmission,
6 and ancillary services. Mohave and Navopache believe that it is
7 impossible for these Affected Utilities to comply with the rules
8 as written.

9 Mohave and Navopache also believe that it is unfair
10 that the rules impose requirements, such as levelized billing,
11 on Affected Utilities but not on ESPs.

12 6. Meter Ownership Issues.

13 Meters must be owned by UDCs to prevent unnecessary
14 stranded costs in meter equipment inventories, meter test
15 equipment and related facilities. The rules currently require
16 utilities to have plans for meter testing and replacement.
17 However, the rules do not impose similar requirements on meter
18 service providers. Also, Mohave and Navopache believe that
19 issues such as EDI and testing of standards and protocols must
20 take place before competition can be in place.

21 7. Distribution Operations/Loss Accounting/Load Profiling
22 Issues.

23 The rules currently do not adequately address
24 implementation issues for UDC operations. Issues that need to
25 be addressed include accounting, settlement, and responsibility
26 for distribution system losses and development and application

1 of load profiles for non-homogeneous customers group such as
2 small commercial users.

3 8. R14-2-1604. Competition Phase-In.

4 Pursuant to the rules, last September the Affected
5 Utilities developed phase-in programs and notified customers
6 regarding eligibility. However, rule changes implemented in
7 December of 1998 created internal inconsistencies which have
8 resulted in customer confusion. This apparent inconsistency in
9 the rules needs to be addressed.

10 9. R14-2-1609. Solar Portfolio Issue.

11 Mohave and Navopache believe that the development of
12 solar resources should be encouraged through investment
13 incentives and allowing the marketplace to work.

14
15 II.

16 METHODS FOR RESOLUTION OF ISSUES

17 Mohave and Navopache believe that all outstanding
18 issues should be resolved through a collaborative effort of all
19 stakeholders through formal workshops and working groups.

20 Mohave and Navopache would comment that most of the
21 workshops and working groups conducted thus far were informal in
22 nature and Staff's recommendations did not necessarily follow
23 the consensus reached in the work groups.

24 Accordingly, Mohave and Navopache would propose that
25 working groups be more formal - almost quasi-judicial in nature.

26

1 All discussions should be well documented. Any consensus and
2 conclusions reached by the parties should be well documented.
3 For issues where no clear consensus can be reached, hearings
4 should be conducted.

6 III.

7 COMMENTS ON THE JOINT PROPOSAL OF RUCO AND THE ATTORNEY GENERAL

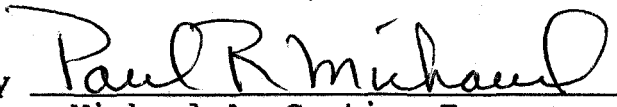
8 Mohave and Navopache would make no comment other than
9 the fact that the proposal excludes two Affected Utilities -
10 Mohave and Navopache.

11 WHEREFORE, Mohave and Navopache would respectfully
12 request that the Chief Hearing Officer address the issues
13 identified in this response.

14 RESPECTFULLY SUBMITTED this 20th day of January, 1999.

15 MARTINEZ & CURTIS, P.C.

16 By


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1 The original and ten (10) copies of
2 the foregoing filed this 26th
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3 DOCKET CONTROL
4 Arizona Corporation Commission
5 1200 West Washington Street
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6 and

7 A copy of the foregoing faxed this 20th day
8 of January, 1999 to:

9 Distribution list for
Docket No. RE-00000C-94-0165

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11 By Mindy Van Roo